

Message Text

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ACTION EB-08

INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 FRB-03 H-01 INR-10 INT-05 L-03 LAB-04
NSAE-00 PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01
TRSE-00 SP-02 SOE-02 OMB-01 DOE-11 NSCE-00 SSO-00
USIE-00 INRE-00 DOEE-00 AF-10 ARA-10 EA-10 EUR-12
NEA-10 IO-13 OIC-02 /148 W
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O 091404Z MAR 78
FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 6965
INFO AMEMBASSY TEL AVIV

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PASS STR

PASS TREASURY

E.O. 11652: N/A
TAGS: GATT, IS
SUBJECT: GATT COUNCIL - ISRAELI REQUEST TO RAISE
SPECIFIC DUTIES

REF: STATE 060217

SUMMARY: ISRAEL WILL NOT ACCEPT A WORKING PARTY LIMITED
TO THEIR REQUEST BUT WILL INSIST THAT WP HAVE BROAD
TERMS OF REFERENCE. END SUMMARY.

1. WE MET MARCH 9 WITH ISRAELI DEL (HARAN, ELIASHIV)
TO DISCUSS SUBJECT REQUEST. ALTHOUGH ISRAELIS UNDER-
STOOD THAT CERTAIN TECHNICAL PROBLEMS MIGHT NEED TO BE
WORKED OUT, THEY COULD NOT UNDERSTAND OUR REFUSAL TO
SUPPORT A POSITIVE COUNCIL DECISION AT THE MARCH 14
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COUNCIL. THEY SAID THAT NO DELEGATION HAS INDICATED
OPPOSITION TO THE PRINCIPLE THAT CPS SHOULD BE ALLOWED
TO ADJUST SPECIFIC RATES IN A SYSTEM OF FLOATING EXCHANGE
RATES IF THEIR CURRENCY DEPRECIATES BY MORE THAN 20
PERCENT. ALL AGREE THAT THIS IS THE INTENT OF ARTICLE II:
6(A) BUT THAT THE ARTICLE IS OBSOLETE IN TODAY'S CURRENCY
SITUATION.

2. AS PER INSTRUCTIONS REFTEL WE NOTED THAT U.S. AGREES IN PRINCIPLE BUT THAT THE ISRAELI REQUEST RAISES A NUMBER OF IMPORTANT POINTS SUCH AS THE CORRECT MEASURE TO USE IN CALCULATING DEPRECIATION, THE QUESTION AS TO WHETHER ISRAEL WOULD LOWER ITS RATES IF THE POUND SUBSEQUENTLY APPRECIATED AND SO FORTH. WE SAID THAT U.S. UNABLE TO SUPPORT REQUEST AT MARCH 14 COUNCIL AND THOUGHT THAT A WORKING PARTY TO EXAMINE THE ISRAELI REQUEST WOULD BE APPROPRIATE.

3. HARAN INDICATED THAT ISRAEL IS WILLING TO EXAMINE THE PROBLEM IN A WORKING PARTY BUT OBJECTS STRONGLY TO A WORKING PARTY SET UP SOLELY TO EXAMINE THE ISRAELI REQUEST. THE PROBLEM, HARAN SAYS, IS NOT THAT ISRAEL IS OUT OF STEP WITH THE GENERAL AGREEMENT, BUT THAT THE GENERAL AGREEMENT WAS WRITTEN UNDER A DIFFERENT SYSTEM OF EXCHANGE RELATIONSHIPS. THE SPIRIT OF ARTICLE II:6(A) IS THAT ADJUSTMENTS TO SPECIFIC RATES SHOULD BE ALLOWED IN SUCH CASES AND GUIDELINES SHOULD BE ESTABLISHED THAT ALLOW ITS USE WHEN CPS MAINTAIN A FLOATING EXCHANGE RATE. WORKING PARTIES WERE NOT SET UP EACH TIME A CP CHANGED ITS PAR VALUE (EXCEPT IN THE URUGUAYAN CASE MENTIONED REFTEL) AND ISRAEL DOES NOT ACCEPT THAT WORKING PARTIES SHOULD BE SET UP FOR CPS ATTEMPTING TO ADJUST SPECIFIC RATES WHEN THEY MAINTAIN A FLOATING RATE. IF WE REQUEST LIMITED OFFICIAL USE

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A WORKING PARTY, ISRAEL WILL INSIST ON BROAD TERMS OF REFERENCE NOT DIRECTLY RELATED TO THE ISRAELI REQUEST.

4. COMMENT: WE HAVE INFORMALLY SOUNDED OUT KEY DELS ON THIS QUESTION. WHILE NONE ARE WILLING TO COMMIT THEMSELVES WITHOUT CHECKING WITH CAPITALS, THEY POINT OUT CORRECTLY THAT IF THE US WANTS WORKING PARTY IT WILL NEED TO ACCEPT BROADER TERMS OF REFERENCE (AS WE DID IN THE WP ON EXPORT COST INFLATION INSURANCE) OR ELSE INVOKE ARTICLE XXIII WHICH NO ONE BELIEVES APPROPRIATE IN THIS CASE. WE DETECT A GENERAL SYMPATHY FOR THE ISRAELI POSITION ALTHOUGH OTHER DELS HAVE NOT YET RECEIVED INSTRUCTIONS. END COMMENT.

5. OUR DISCUSSIONS WITH THE ISRAEL DEL, THE GATT SECRETARIAT AND OTHER DELS INDICATE THE FOLLOWING POSSIBILITIES:

(1) COUNCIL AGREES IN PRINCIPLE TO ISRAELI REQUEST AND SETS UP WP TO DEFINE GUIDELINES FOR FUTURE COUNCIL DECISIONS IN SIMILAR CASES. ISRAELIS COULD BE GIVEN PROVISIONAL GREEN LIGHT OR DECISION ON ISRAELI CASE COULD BE SET ASIDE PENDING RECOMMENDATIONS OF WP.

(2) COUNCIL COULD DELAY DECISION WHILE INTERESTED PARTIES
CONSULT TO DETERMINE CORRECT WAY IN WHICH ISRAELIS
SHOULD APPLY ARTICLE II:6(A).

(3) BOP COMMITTEE COULD TAKE UP GENERAL ISSUE WHEN IT
CONSULTS WITH ISRAEL LATER IN SPRING.

6. HARAN SAID ISRAEL COULD ACCEPT ANY OF THESE SOLUTIONS
ON THE CONDITION THAT ANY WP OR COMMITTEE LOOK AT THE
GENERAL PROBLEM AND NOT MERELY THE ISRAELI REQUEST.

7. THE GATT SECRETARIAT INDICATED IT WOULD WELCOME A
LOOK AT THE GENERAL PROBLEM IN A WORKING PARTY. WHEN
ASKED HOW THE RESULTS OF A WP MIGHT BE USED, THE
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SECRETARIAT INDICATED THAT THE WP COULD ATTEMPT TO
ESTABLISH GUIDELINES FOR THE ADJUSTMENT OF SPECIFIC
RATES UNDER A FLOATING EXCHANGE SYSTEM. ALTERNATIVELY
A WP COULD DEVELOP GUIDELINES FOR COUNCIL DECISIONS IN
CASES BROUGHT TO THE COUNCIL UNDER ARTICLE II:6(A).

THERE ARE, OF COURSE, OTHER FORMULATIONS THAT AVOID THE NECESSITY OF AMENDING THE GENERAL AGREEMENT. ROSSLER (GATT SECRETARIAT) POINTED OUT THAT SUCH GUIDELINES COULD HAVE RELEVANCE FOR THE TARIFF CONCESSIONS NEGOTIATED IN THE MTN, SINCE CPS GRANTING SUCH CONCESSIONS ON SPECIFIC DUTIES WOULD KNOW THAT THE VALUE OF THOSE CONCESSIONS COULD BE MAINTAINED. HE ALSO NOTED THAT SOME OF THE MORE GENERAL QUESTIONS SUCH AS THOSE RAISED IN PARA 3 REFTEL COULD BE EXPLORED IN DEPTH.

8. COMMENT: WHILE WE SHARE WASHINGTON'S CONCERN OVER THE PRECEDENTIAL NATURE OF THIS CASE, WE DO NOT UNDERSTAND THE RELUCTANCE TO EXAMINE THE PROBLEM IN ITS ENTIRETY, RATHER THAN TO GO AT IT IN A PIECEMEAL FASHION BY LIMITED OFFICIAL USE

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ESTABLISHING WORKING PARTIES ON A CASE BY CASE BASIS. IT WOULD SEEM THAT A WORKING PARTY TO LOOK AT THE GENERAL ISSUE WOULD AVOID MAKING THE ISRAELI CASE A PRECEDENT AND WOULD ALSO ALLOW US TO UPDATE THIS ARTICLE OF THE GENERAL AGREEMENT TO ACCORD WITH TODAY'S REALITIES. VANDEN HEUVEL

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